MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2017/2018

BFN2224 – FINANCIAL MARKETS AND INSTITUTIONS

(All sections / Groups)

1 JUNE 2018
3 p.m. - 5.00 p.m.
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 3 pages with 4 Questions only.

2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.

3. Please print all your answers in the Answer Booklet provided.

QUESTION 1 (25 MARKS)

a) Explain the flow of funds through the financial system via figure or chart.

(7 marks)

b) Discuss, with examples, the importance of financial markets.

(8 marks)

c) Explain the problem of adverse selection created by asymmetric flow of information. Use example to illustrate your answer

(5 marks)

d) How do financial intermediaries solve the problem of adverse selection?

(5 marks)

QUESTION 2 (25 MARKS)

Oliver is considering purchasing a bond of the Rosy Corporation. The bond has a par value of RM1,000 with 8 percent coupon rate and will mature in 10 years. Assuming a yield to maturity of 8%, answer the following questions:

a) What are the cash flows that he should receive from years 1 to 10 if he were to hold the bond until maturity?

(6 marks)

b) If he plans to hold the bond until maturity, what is the total cash he will receive from the bond after 10 years? Assume that the periodic cash flows are reinvested at 8%.

(5 marks)

c) If he plans to hold the bond only for 4 years and then sell the bond, what will be the total cash he will receive after the 4 years? Assume that the periodic cash flows are reinvested at 8%.

(7 marks)

d) What is the total cash he will receive from the bonds after 4 years if interest rates increased to 9%? How does this compare with the answer in part b)?

(7 marks)

Continued...

QUESTION 3 (25 MARKS)

a) What is the objective of the monetary policy? How can this objective be achieved?

(5 marks)

b) Suppose that the economy has begun to slow down. What step can be taken by the Central Bank to stimulate the economy?

(4 marks)

c) Discuss the effect of the action taken in (b) on the following?

i. Interest Rates in financial markets
ii. Lending rates at financial institutions
iii. Market value of fixed-income securities such as corporate bonds
iv. Consumer Spending
v. Business Spending
vi. Exchange Rates in foreign exchange markets
vii. Exports and imports
viii. Domestic production of goods and services

(16 marks)

QUESTION 4 (25 MARKS)

a) What is the difference between the discount rate % and the investment rate % that investors earn when investing in money market securities such as Treasury bills and commercial paper? Which of the two is a more accurate representation of what the investor will earn? Why? You will need to explain the difference in concept and difference in the formulas for these two rates.

(8 marks)

b) Calculate the discount rate % and investment rate % of a RM1,000 Treasury bill that has 45 days to maturity and a price of RM994.85.

(5 marks)

c) Suppose the stock price of ABC Corp. is currently at RM2.80 per share. At that time, it pays an annual dividend of RM0.10 per share, and analysts have set a 1-year target price around RM3.00 per share. What is the expected return on this stock?

(4 marks)

Continued...

d) The Malaysian Ringgit (MYR) to Singapore Dollar (SGD) exchange rate is 2.95 and the Malaysian Ringgit (MYR) to Indonesian Rupiah (IDR) exchange rate is 0.00027. If you find that the Singapore Dollar (SGD) to Indonesian Rupiah (IDR) is trading at 0.00010, is there an arbitrate opportunity? If yes, what would you do to earn a riskless profit?

(8 marks)

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